Harnischfeger corporation

Questions 1.

Identify all the accounting policy changes and the accounting estimates that Harnischfeger made during 1984. Estimate, as accurately as possible, the effect of these on the company? s 1984 reported profits. 2. What do you think are the motives of Harnischfeger? s management in making the changes in its financial reporting policies? Do you think investors will see through these changes? Answers 1.

Identify all the accounting policy changes and the accounting estimates that Harnischfeger made during 1984. Estimate, as accurately as possible, the effect of these on the company? s 1984 reported profits. a. Changes that affect the Harnischfeger Revenues: • The company start to account Kobe Steel sales in US, previously it only add the gross margin in the financial statement. (this sales represents $28 millions) • Sales to a foreign subsidiary starts to be consolidated as a net revenues (this sales represents $5, 4 millions) b. Changes that affect the Harnischfeger profitability: • Change in the depreciation accounting method from accelerated to straight line method.

Increase of $11 million in 1984 income • Change on the company’s net residual value. Increased net income in $ 3, 4 millions c. Inventories Liquidation: • The company had a $ 2, 4 million increase in its net income, as a result of LIFO inventory liquidation. 2. What do you think are the motives of Harnischfeger? s management in making the changes in its financial reporting policies? Do you think investors will see through these changes? It seems that the company had a better accounting result, not a better “ operating” result.

In order to report a better financial Statement (and increase its bonus based on accounting net income) the management decrease depreciation “ levels”, increase revenues and switch inventories method of accounting. In my point of view, the expense reduction in SG&A might be not enough to change the scenario. Worst than that is the cut on investment in R&D, which apparently happened in 1984 and might affect future growth and results. There are good chances that the company’s investors do not see these actions with good eyes…